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Mary Mosiman, CPA
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NEWS RELEASE

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FOR RELEASE December 20, 2013, 12:00 noon

Auditor of State Mary Mosiman today released a report on a special investigation of the City of Riverside for the period July 1, 2006 through December 31, 2012. The special investigation was requested by City officials after concerns were identified with the administration of the City's Flexible Spending Accounts (FSAs) offered to employees as part of the City's benefit package.

Mosiman reported the special investigation identified \$64,061.85 of improper disbursements, including:

- \$26,756.35 of unauthorized payments to a third-party administrator for excess contributions to employee FSAs, distributions from Health Reimbursement Arrangements (HRAs) established for City employees without proper approval and administrative fees issued to the third-party administrator for maintaining the HRAs,
- \$24,260.01 of improper sick leave payouts,
- \$4,900.98 of improper vacation payouts,
- \$2,019.20 of improper compensatory time payouts,
- \$1,992.11 of improper personal time payouts,
- \$3,702.91 of payments for FICA and IPERS on the improper payouts,
- \$228.99 of sales tax paid on purchases made with the City's credit card,
- \$111.78 of late fees, finance charges and interest on the City's credit card and
- \$89.52 of improper lunch reimbursements.

Mosiman also reported a review of the City's disbursement process showed disbursements totaling \$274,047.90 were paid prior to City Council approval, \$32,016.94 did not have sufficient supporting documentation and \$10,289.10 were paid without City Council approval. However, none of the disbursements identified were considered improper.

The report includes recommendations to strengthen the City's internal controls, such as improvements to segregation of duties, ensuring all disbursements are properly supported and approved prior to payment and ensuring all benefits provided to City employees are properly approved and are in compliance with established City policy.

Copies of the report have been filed with the Division of Criminal Investigation, the Washington County Attorney's Office and the Attorney General's Office. A copy of the report is available for review in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/specials/1221-0886-BE00.pdf>.

**REPORT ON SPECIAL INVESTIGATION
OF THE
CITY OF RIVERSIDE

FOR THE PERIOD
JULY 1, 2006 THROUGH DECEMBER 31, 2012**

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Auditor of State's Report

To the Honorable Mayor and Members
of the City Council:

As a result of alleged improprieties regarding certain financial transactions and at your request, we conducted a special investigation of the City of Riverside. We have applied certain tests and procedures to selected financial transactions of the City for the period July 1, 2006 through December 31, 2012. Because not all records were readily available, we were not able to perform all procedures for the entire period. Based on our review of relevant information and discussions with City officials and personnel, we performed the following procedures for the periods specified.

For the period July 1, 2006 through December 31, 2012, we:

- (1) Evaluated internal controls to determine whether adequate policies and procedures were in place and operating effectively.
- (2) Reviewed the minutes of City Council meetings for significant actions.
- (3) Reviewed the agreements for the City's Flexible Spending Accounts (FSAs) and Health Reimbursement Arrangements (HRAs) and the City Council resolutions approving employee benefits to determine if the FSAs and HRAs were properly approved and administered in accordance with the agreements.
- (4) Interviewed former and current City Council members and employees and the City's insurance agent to determine their understanding of the approved benefit package and the City Council's intent for including the FSA/HRA option.
- (5) Reviewed the City's FSA and HRA account history obtained from the third-party administrator to determine if all payments issued from the City's checking account were accounted for and were properly approved.
- (6) Examined the FSA and HRA contribution calculations for each employee prepared by former City Clerks and the City's insurance agent to determine if the contributions were properly calculated.
- (7) Reviewed selected payroll history reports to determine if FSA and/or HRA contributions were deducted from employees' gross pay and to determine if the City's share of the family health and dental premiums were calculated properly.

For the period July 1, 2007 through December 31, 2012, we:

- (1) Reviewed supporting documentation for all sick leave, vacation, compensatory time and personal time payouts to determine if they were properly approved and in accordance with the City's policy.

- (2) Examined all invoices from the City's engineering firm to determine if they were properly approved prior to payment and the work performed was reasonable.
- (3) Scanned all petty cash transactions recorded in the City's petty cash log and examined documentation for certain transactions to determine whether they were appropriate and properly supported.
- (4) Examined utility billing and collection records to determine if collections were properly accounted for and deposited and to determine if all customer account balances written off as uncollectible were properly approved.

For the period July 1, 2008 through June 30, 2012, we:


- (1) Reviewed activity in the City's bank accounts to identify any unusual activity.
- (2) Scanned images of redeemed checks issued from the City's checking accounts for reasonableness. We examined certain disbursements to determine if they were appropriate, properly approved and supported by adequate documentation.
- (3) Examined certain deposits to the City's bank accounts to determine the source, purpose and propriety of each deposit and to determine deposits were made intact.
- (4) Reviewed statements for the City's credit card account and the related invoices to determine the propriety of activity.
- (5) Examined all transfers between the City's bank accounts to ensure amounts withdrawn were properly deposited in a timely manner and approved by the City Council.
- (6) Confirmed payments made to the City by the State of Iowa and Riverside Casino and Golf Resort to determine if they were properly deposited to the City's bank accounts.

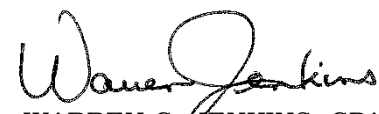
These procedures identified \$64,061.85 of improper disbursements. Several internal control weaknesses were also identified. Our detailed findings and recommendations are presented in the Investigative Summary and **Exhibits A** and **B** of this report.

The procedures described above do not constitute an audit of financial statements conducted in accordance with U. S. generally accepted auditing standards. Had we performed additional procedures, or had we performed an audit of financial statements of the City of Riverside, other matters might have come to our attention that would have been reported to you.

Copies of this report have been filed with the Division of Criminal Investigation, the Washington County Attorney's Office and the Attorney General's Office.

We would like to acknowledge the assistance extended to us by personnel of the City of Riverside during the course of our investigation.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 8, 2013

Report on Special Investigation of the City of Riverside

Investigative Summary

Background Information

The City of Riverside is located in Washington County and has a population of approximately 990 according to the 2010 census. The City employs a City Administrator/City Clerk (City Clerk), a Deputy Clerk/Utility Billing Clerk (Deputy Clerk) and 2 public works employees. The 5 member City Council meets the first and third Monday of each month. Tina Thomas was hired as the City Clerk in November 2004, became City Administrator/City Clerk effective July 1, 2008 and resigned effective July 1, 2011. Missy Carter was hired as the City Clerk on July 5, 2011 and resigned July 13, 2012. As the City Clerk, Ms. Thomas and Ms. Carter were responsible for:

- 1) Receipts – collecting, posting to the accounting records and preparing and making bank deposits,
- 2) Disbursements – making purchases, receiving certain goods and services, presenting disbursements to the City Council for approval, maintaining supporting documentation, preparing, signing and distributing checks and posting payments to the accounting records,
- 3) Payroll – calculating, preparing, signing and distributing checks and posting payments to the accounting records,
- 4) Utility billings – preparing and mailing billings, receipting and depositing collections, posting collections to customer accounts and accounting records and preparing and making bank deposits,
- 5) Bank accounts – receiving and reconciling monthly bank statements to accounting records and
- 6) Reporting – preparing City Council meeting minutes and financial reports, including monthly Clerk register reports and the Annual Financial Report.

The Deputy Clerk provided assistance to the City Clerk, as requested; however, this position was never solely responsible for any one area.

The City's primary revenue sources include local option sales tax and road use tax from the State of Iowa, property tax collected by Washington County and remitted to the City and the annual contributions received from the Riverside Casino and Golf Resort. Revenue is also received from customers for utility services. The City receives payments from the State and County electronically. All other payments are collected through the mail, in person or in the utility collection box located at City Hall.

All City disbursements, including payroll, are to be made by check. However, we determined payments made to the third-party administrator of the City's Flexible Spending Accounts (FSAs) and Health Reimbursement Arrangements (HRAs) were automatically withdrawn from the City's checking account. We could not locate approval from the City Council for these payments to be made electronically. All disbursements are to be supported by invoices or other support obtained or submitted by the City Clerk. Each month, the City Clerk prepares a listing of bills and provides the listing to the City Council for approval. However, the City Clerk did not consistently include the payments to the third-party administrator of the FSAs/HRAs on the listing for City Council approval. After the City Council approves the bills, the City Clerk is to prepare and sign the checks. The City does not require counter-signatures on the checks.

The City maintains 3 checking accounts at a bank in Riverside and a checking account at a bank in Coralville. The City also had up to 4 credit cards during the period reviewed, each assigned to a different City employee, including the Mayor. Monthly statements for the City's checking

accounts and credit cards are mailed directly to City Hall where they are opened by the City Clerk. Bank statements and check images are not periodically reviewed by members of the City Council.

As previously stated, the City Clerk processes payroll for the City, including administering employee benefits. The City provides paid leave for vacation, sick time, compensatory time and personal time to all employees. In addition, the City pays 100% of the insurance premiums for employees with single health and dental coverage and 90% of the insurance premiums for employees with family health and dental coverage. Prior to January 1, 2008, the City paid 75% of the insurance premiums for employees with family health and dental coverage.

Beginning July 2006, the City started offering an FSA to eligible employees. According to 2 former City Council members we interviewed, the City Council wanted to equalize benefits among City employees. The maximum benefit available to City employees was the City's share of the insurance premiums for family health and dental coverage. As a result, the difference between the premiums for the health and dental coverage selected by each employee and the City's share of premiums for family coverage was contributed to an FSA for each employee to use to reimburse medical expenses. The City hired a third-party administrator to manage the FSA.

In January 2007, HRAs were also established for City employees with the third-party administrator of the employees' FSAs. According to representatives of the third-party administrator, the HRAs were not included under the cafeteria plan establishing the FSA. The HRA agreement was submitted and signed by Ms. Thomas and was established to provide employees reimbursement for medical expenses which were not allowable under the FSA, such as reimbursement for insurance premiums of health and/or dental insurance held by the employee outside the City.

During the current City Clerk's review of the accounting records for fiscal year 2012, he determined the City was fully funding the employees' FSAs and HRAs. Based on his review of the cafeteria plan and HRA agreement, he believed there was to be an employee contribution deducted pre-tax from the employee's gross pay. In addition, he was unable to find City Council approval for the HRAs. He also determined the payments to the third-party administrator were being automatically withdrawn from a City checking account and were not included on the bill listing presented to the City Council for approval.

As a result of the concerns identified, City officials requested the Office of Auditor of State review the City's financial transactions. We performed the procedures detailed in the Auditor of State's report for the period January 1, 2006 through December 31, 2012.

Detailed Findings

The procedures performed identified \$64,061.85 of improper disbursements, including:

- \$26,756.35 of unauthorized payments to a third-party administrator for excess contributions to employee FSAs, distributions from HRAs established for City employees without proper approval and administrative fees issued to the third-party administrator for maintaining the HRAs,
- \$24,260.01 of improper sick leave payouts to 5 employees,
- \$4,900.98 of improper vacation payouts,
- \$2,019.20 of improper compensatory time payouts,
- \$1,992.11 of improper personal time payouts,
- \$3,702.91 of payments for FICA and IPERS on the improper payouts,
- \$228.99 of sales tax paid on purchases made with the City's credit card,
- \$111.78 of late fees, finance charges and interest on the City's credit card and
- \$89.52 of improper lunch reimbursements.

All findings are summarized in **Exhibit A** and a detailed explanation of each finding follows.

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FSAs and HRAs – We reviewed the FSA and HRA requirements and the calculation of benefits for each employee from inception of the agreements in July 2006 and January 2007, respectively, through July 2012. Through discussions with former and current City Council members and employees, we determined the FSA was initially implemented to ensure the same amount was paid for benefits for all City employees. According to discussions with former City Council members, the City employed an individual who carried family health and dental insurance through the City and another individual who was on his spouse's health and dental insurance. As a result, the City was not paying the same amount for benefits for the 2 employees. Therefore, the City Council elected to offer the City's share of the insurance premiums for family coverage to all employees in the form of other benefits. However, based on a review of City Council meeting minutes from January 5, 2004, after the employee carrying insurance through his spouse began carrying his insurance through the City, the City Council discussed how to ensure the 2 employees received equitable wages. At that time, there was no discussion of implementing an FSA, rather a wage increase was approved for the employee carrying family insurance.

The explanation for the initial implementation of the FSA provided by Ms. Thomas differed from the explanation provided by the former City Council members. According to Ms. Thomas, the FSA option was first discussed when the City's insurance agent told her she was not being treated equally under the City's benefit package because she was not carrying her health and dental insurance through the City. However, when we spoke with the City's insurance agent, he stated the FSA option was first discussed when Ms. Thomas approached him about equalizing benefits for all employees. We were unable to determine how the discussions regarding an FSA were first initiated. Both Ms. Thomas and the City's insurance agent agreed they discussed the option of offering an FSA and presented the option to the City Council for approval.

Based on a review of the City Council meeting minutes and corresponding resolutions, we were unable to determine the information presented to the City Council regarding the cafeteria plan which would establish the FSA. In addition, we were unable to determine how the City Council intended the FSA to be administered. The City Council resolution dated June 5, 2006 stated the City Council was "allowing for pre-taxed insurance, medical benefits, and dependent care expenses." However, another document, which appears to be background information for the establishment of the cafeteria plan, states, "The employee now is provided premium credits equally to be used to purchase benefits as each employee selects." Based on these 2 documents, we are unable to determine if the FSA was to be funded by the City or through employee payroll deduction. According to interviews with former and current City Council members and employees, it appears the FSA was to be fully funded by the City. When we spoke with representatives of the third-party administrator, they stated, although it is not unusual to have a fully employer funded FSA, typically FSAs are dual funded with contributions made by both the employer and the employee.

Annually, each City employee completes an enrollment form specifying the total contribution amount elected, up to a maximum of \$6,000.00. The total contributions are divided into equal installments and withdrawn from the City's checking account on a regular basis. When the FSA was first initiated, the third-party administrator withdrew payments on a monthly basis. This was subsequently changed to weekly withdrawals to correspond with the City's payroll. Throughout the calendar year, each employee requests reimbursements for medical expenses from the third-party administrator. Under an FSA, the employee can request reimbursement based on the total contribution amount elected prior to the funds being withdrawn from the City's checking account. If an employee uses the entire contribution amount and subsequently terminates employment with the City, the City is still liable for the total contribution amount. However, if the employee does not use the total contribution amount, the third-party administrator refunds the unused contributions to the City.

We reviewed the calculations of the FSA contributions by employee to determine if the amounts were properly calculated in accordance with the City Council resolutions approving the premiums for health and dental insurance for City employees. The City first calculated a maximum benefit allowance based on the City's share of the premiums for family health insurance, family dental insurance and life insurance. In accordance with the City's cafeteria plan, City employees allocated their maximum benefit allowance among life insurance and their choice of health insurance and dental insurance. Any amount remaining after electing insurance coverage was allocated to the employee's FSA. According to the third-party administrator, it is not typical for the FSA contributions to be determined based on the highest insurance premium for an employee; an employer usually specifies a set benefit amount based on a particular classification, such as full-time versus part-time or family coverage versus single coverage.

Based on our review of the City's calculations, the maximum benefit allowance was not properly calculated. Rather than basing the calculation on the City's share of the family health and dental premiums, the City used the increment between family coverage and single coverage. As a result, the City's calculated maximum benefit allowance was higher than it should have been. For example, **Table 1** compares the maximum benefit allowance calculated by the City to the correct calculation for calendar year 2008.

Table 1

Description	City Calculation	Correct Calculation
Monthly family health and dental insurance premiums	\$ 985.73	985.73
Monthly single health and dental insurance premiums	(389.70)	-
Basis for calculating City's share of insurance premiums	596.03	985.73
Multiplied by City's share of family insurance premiums	x .90	x .90
City's share of insurance premiums	536.43	887.16
Monthly single health and dental insurance premiums	389.70	-
Monthly life insurance premium	4.30	4.30
Monthly maximum benefit allowance	930.43	891.46
Multiplied by number of months in a year	x 12	x 12
Annual maximum benefit allowance	\$ 11,165.16	10,697.52

As illustrated by the **Table**, the annual maximum benefit allowance for 2008 should have been \$10,697.52, which is \$467.64 less than the City's calculated maximum benefit allowance of \$11,165.16. After each employee selected their health and dental coverage and the life insurance premium was accounted for, the remaining benefit allowance became the City's contribution to the employee's FSA. We recalculated each employee's maximum benefit allowance and compared the calculated amount to the employee's FSA benefit election for calendar years 2006 through 2012. As a result, we determined the City complied with the \$6,000.00 FSA limit; however, the maximum benefit allowance calculated by the City was not correct for any City employee in any calendar year as discussed further in a later paragraph.

As previously stated, the City began contributing to HRAs on behalf of City employees in January 2007. We reviewed the City Council meeting minutes and resolutions; however, we were unable to locate City Council approval for the HRA agreement. According to the City's insurance agent, he would not expect the City Council to be aware of the HRA agreement. He did not recall the HRA agreement being discussed with the City Council. In addition, the provision of an HRA is not included in the "Employee Benefits" specified in the City's employee handbook dated December 17, 2007. According to Ms. Thomas and the City's insurance agent, the HRA was an additional option under the cafeteria plan which the City Council approved to establish the FSA. However, according to representatives of the third-party administrator, the HRA is a separate plan which is not covered under the City's previously approved cafeteria plan.

Based on a review of correspondence between the City's insurance agent and the third-party administrator, Ms. Thomas intended to use the FSA as a reimbursement for her spouse's employee share of his health insurance premiums. However, that is not an allowable expense under an FSA. As a result, the HRA was established to allow Ms. Thomas to receive the benefit she wanted.

Similar to the FSA, each employee completes an annual enrollment form specifying the total contribution amount. However, the contributions elected are not automatically withdrawn from the City's checking account, rather payments are not withdrawn until an employee requests a distribution. The contribution amount elected by the employee is established as a "credit" in an HRA account by the third-party administrator. According to Ms. Thomas, an employee must exhaust the available FSA contributions prior to requesting a distribution from the HRA. In addition, if an employee does not use all available "credits" in a calendar year, the balance is carried forward to the next calendar year. When we spoke with the third-party administrator, they stated it is not typical for each employee to specify a different HRA contribution amount; an employer usually specifies a set "credit" amount based on a particular classification.

We obtained the City's FSA and HRA account history for each employee from the third-party administrator and reconciled the FSA contributions and HRA distributions to the withdrawals from the City's checking account. In addition, we determined the additional FSA liability or refund amount for each year and determined the refunds were properly deposited to the City's checking account timely and intact. **Exhibit B** summarizes the calculated maximum benefit allowance, the employee's benefit election, the FSA contributions made by the City, the HRA "credits" elected, the distributions made by the third-party administrator for both FSA and HRA accounts and the HRA balance carried forward for each employee, as well as the additional FSA liability or refund amount.

In calendar year 2012, the third-party administrator established HRA accounts for the current City Clerk and the current Deputy City Clerk. However, when we spoke with the current employees, they stated they neither wanted nor authorized the HRA accounts. Because no distributions were made from their HRA accounts, no payments were issued to the third-party administrator by the City to fund these HRA accounts. As a result, we did not calculate the maximum benefit allowance for these 2 employees and did not include them in the **Exhibit**.

As illustrated by the **Exhibit**, the employee's FSA benefit election exceeded the calculated maximum benefit allowance on 10 occasions. However, the employee distributions were less than the calculated maximum benefit allowance for 6 of the 10 occasions identified. Therefore, no additional costs were incurred by the City. For the remaining 4 occasions, the employee distributions exceeded the calculated maximum benefit allowance. As a result, the City incurred additional costs of \$204.96 related to excess FSA contributions.

Also as illustrated by the **Exhibit**, the HRA benefit election caused the employees to exceed the calculated maximum benefit allowance for each calendar year from 2007 through 2012, except for an employee in calendar year 2008. In addition, 3 of the 4 employees elected the same HRA "credits" and 2 of the 4 employees did not use any of their available "credits" for calendar years 2007 and 2008. Beginning in 2009, the "credits" elected varied from employee to employee and equaled the amount of the employee's available credit which exceeded the \$6,000.00 FSA maximum. Because 2 employees did not claim any of the available "credits" in calendar years 2007 and 2008 and did not enroll in calendar year 2009, the third-party administrator considered their HRA account terminated and did not carry forward the ending balances. Based on a discussion with 1 of the 2 employees identified, he did not claim any distributions because he was unaware an HRA account had been established in his name. For calendar years 2007 through 2012, the HRA distributions funded by the City total \$25,580.59.

As previously stated, it appears the HRA was established to provide Ms. Thomas with the benefits she wanted. However, it does not appear the other City employees were well-informed regarding the HRA. As illustrated by **Exhibit B**, only Ms. Thomas and another employee took distributions from their HRA accounts for calendar years 2007 through 2010 and the other employee only used

\$147.50 of the \$9,493.92 of “credits” available to him. According to the City’s insurance agent, the annual contribution from Riverside Casino and Golf Resort allowed the City to “sweeten its programs” and the HRA was established in order to allow after tax insurance premiums to be added for Ms. Thomas.

The City paid an administrative fee to the third-party administrator for both the FSAs and HRAs established for City employees. Because the HRAs were not properly approved, the administrative fees for the HRA accounts are considered to be improper disbursements. **Table 2** summarizes the administrative fees paid by the City for the unauthorized HRAs by fiscal year.

Table 2	
Fiscal Year	Amount
2007	\$ 108.00
2008	144.00
2009	72.00
2010	235.20
2011	235.20
2012	176.40
Total	\$ 970.80

Because the FSA contributions were not properly calculated and the HRAs were not properly approved by the City Council, the excess FSA contributions of \$204.96, the HRA distributions of \$25,580.59 and the HRA administrative fees of \$970.80 are included in **Exhibit A** as improper disbursements.

Sick Leave Payouts – During the current City Clerk’s review of the accounting records for fiscal year 2012, he identified 4 payments issued to Ms. Thomas to pay out her unused sick leave balance subsequent to her resignation. The payments were processed by Ms. Carter after they were approved by the City Council. Upon further investigation, he identified additional payments issued to other City employees for unused sick leave balances at their separation from the City. However, he did not feel the payments were made in accordance with the City’s policy. As a result, we reviewed all sick leave payouts issued to City employees leaving City employment from July 2011 through July 2012.

According to the City’s employee handbook dated December 17, 2007, employees earn 8 hours of sick leave per month and cannot accumulate more than 480 hours. However, the employee handbook does not address whether unused sick leave balances can be paid out to employees at any time, including upon their resignation from employment. According to the policy regarding severance pay upon termination, “Any employee who has terminated his/her employment with the City for a reason shall be paid for any earned, unused vacation, personal time, or comp time.” In addition, the previous “Employee Benefit List” dated January 16, 2006 stated, “There is no payment for sick leave after leaving employment of the City of Riverside.”

We also reviewed a letter from the City’s attorney requested during the City’s fiscal year 2011 financial audit. According to the letter, the City attorney stated, “There is no provision in the Employment Agreement authorizing payment of accumulated and unused sick leave. The Handbook does not authorize payment of accumulated and unused sick leave benefits.” Based on the available documentation, we determined unused sick leave balances are not to be paid out at any time, including upon an employee’s separation from the City.

We identified 5 City employees who received a payout of their unused sick leave balances upon separation from the City. Based on a review of the City Council meeting minutes, the sick leave payouts identified were approved by the City Council; however, the meeting minutes do not

include either the accumulated sick leave hours or the amounts of the payments. As a result, we were unable to determine if the City Council members were fully aware of the amounts being approved. Based on a review of the City Council meeting minutes, a City Council member questioned the reasonableness of paying out accumulated sick leave balances. In addition, for 3 of the 5 payouts identified, the City Council member voted against approving the payout because sick leave was included.

We reviewed the payroll leave history reports for each employee listed in **Table 3** for the period December 2007 through their separation from the City and determined all employees accrued the proper amount of sick leave. In addition, none exceeded the maximum allowable balance of 480 hours during the period reviewed. Because the City changed accounting systems, payroll leave history reports prior to December 2007 were not available. As a result, our calculations begin with the balances as of December 11, 2007. **Table 3** summarizes the unused sick leave balances and sick leave payouts by employee.

Table 3			
Fiscal Year	Employee	Hours	Amount
2012	Tina Thomas	471.38	\$ 12,548.14
2012	Brad Herrig	423.87	8,863.12
2013	Melissa Carter	113.27	1,925.59
2012	Donna Leyden	44.08	658.56
2013	Teresa Sladek	19.60	264.60
Total		1,072.20	\$ 24,260.01

Because the sick leave payouts are not in compliance with the City's policy, the \$24,260.01 of sick leave payouts identified is included in **Exhibit A** as improper disbursements.

Vacation Payouts – During the current City Clerk's review of the accounting records for fiscal year 2012, he identified 2 payments issued to Ms. Thomas to pay out her unused vacation balance subsequent to her resignation. The payments were processed by Ms. Carter after they were approved by the City Council. Upon further investigation, the City Clerk identified additional payments issued to other City employees for unused vacation balances at their separation from the City. However, he was concerned the payments had not been calculated in accordance with the City's policy. As a result, we reviewed all vacation payouts issued to City employees leaving City employment from July 2011 through July 2012.

According to the City's employee handbook dated December 17, 2007, vacation hours are accrued based on the employee's anniversary date, as follows:

- 1 year equals 40 hours per year or .77 hours per pay period,
- 2-5 years equals 80 hours per year or 1.55 hours per pay period,
- 6-10 years equals 120 hours per year or 2.31 hours per pay period and
- 11-20 years equals 160 hours per year or 3.077 hours per pay period.

The employee handbook also specifies employees are allowed to carry over a maximum of 80 hours of vacation each year and any unused vacation will be paid upon an employee's resignation or retirement. Based on a review of Ms. Thomas' employment contract, she was to accrue vacation hours in accordance with the employee handbook.

As previously stated, we also reviewed a letter from the City's attorney requested during the City's fiscal year 2011 financial audit. According to the letter, the City attorney stated the vacation

payouts issued to Ms. Thomas were not in compliance with the City's policy. Specifically, he stated Ms. Thomas would have had to carry over at least 126.1 hours of vacation in order to arrive at the 206.1 hours of vacation paid out, which does not comply with the 80 hour maximum carry over established by the City's policy. Based on a review of the City Council meeting minutes, Ms. Thomas' vacation payout was approved by the City Council although the meeting minutes do not include either the accumulated vacation hours or the amounts of the payments. As a result, we are unable to determine if the City Council members were fully aware of the amounts being approved.

We reviewed the payroll leave history report for Ms. Thomas for the period December 2007 through July 2011 to determine if her vacation hours were being accrued and carried forward in accordance with the City's employee handbook. As previously stated, Ms. Thomas was responsible for calculating payroll. In addition, she was responsible for entering the accrual rates in the City's accounting system. Based on a review of the payroll leave history report, Ms. Thomas used the proper accrual rate for vacation hours for the period reviewed. However, we determined vacation hours were not accrued each pay period, which resulted in errors with her annual vacation hour accrual. In addition, the accrual rate was increased on a calendar year basis rather than at Ms. Thomas' anniversary date of November 28. We also determined the entire vacation balance was carried forward each year rather than the 80 hour maximum established by the City's employee handbook.

Table 4 summarizes Ms. Thomas' actual vacation accruals and balances based on the payroll leave history report, the calculated vacation accruals and balances based on the City's employee handbook and the difference in balances for the period December 2007 through July 2011. As previously stated, because the City changed accounting systems, the payroll leave history reports prior to December 2007 were not available. As a result, our calculations began with the balances as of December 11, 2007. As illustrated by the **Table**, Ms. Thomas carried forward more than the 80 hour maximum established by the City's employee handbook each year. Ms. Thomas received a vacation payout totaling \$5,486.38 upon her resignation. However, had Ms. Thomas carried forward the proper balances, she would have received \$2,781.79. As a result, the City incurred additional expenses of \$2,704.59, based on 101.60 hours at an hourly rate of \$26.62, related to overpayment of Ms. Thomas' vacation payout.

Table 4

Description	Anniversary Year			
	2007-2008	2008-2009	2009-2010	2010-2011 [^]
Actual per the payroll leave history report:				
Hours carried forward	85.34	102.84	96.97	179.99
Vacation hours earned	77.00	72.38	116.27	71.61
Vacation hours used	(59.50)	(78.25)	(33.25)	(45.50)
Balance	102.84	96.97	179.99	206.10
Calculated per the employee handbook:				
Hours carried forward	80.00	80.00	80.00	80.00
Vacation hours earned	80.00	80.00	120.00	70.00
Vacation hours used**	(59.50)	(78.25)	(33.25)	(45.50)
Balance	100.50	81.75	166.75	104.50
Difference	2.34	15.22	13.24	101.60

[^] - Because Ms. Thomas resigned effective July 1, 2011, this is a partial year.

** - Actual hours per the payroll leave history report.

We identified 4 additional City employees who received a payout of their unused vacation upon separation from the City. We reviewed the payroll leave history reports for each employee

identified for the period December 2007 through their separation from the City and determined 3 of the 4 employees received the proper vacation payout. However, for Brad Herrig, a public works employee, we determined the vacation balance was not properly carried forward at his anniversary date of July 13. In addition, similar to Ms. Thomas, we determined vacation hours were not accrued each pay period, which resulted in errors with his annual vacation hour accrual. **Table 5** summarizes Mr. Herrig's actual vacation accruals and balances based on the payroll leave history report, the calculated vacation accruals and balances based on the City's employee handbook and the difference in balances for the period December 2007 through November 2011.

As illustrated by the **Table**, the balance carried forward each year exceeded the 80 hour maximum established by the City's employee handbook. In addition, because the balance was carried forward improperly in 2009, the employee used 30.75 more vacation hours than were available for the 2009-2010 anniversary year.

Table 5

Description	Anniversary Year				
	2007-2008	2008-2009	2009-2010	2010-2011	2011^
Actual per the payroll leave history report:					
Hours carried forward	141.36	198.41	107.98	78.66	125.03
Vacation hours earned	69.30	108.57	122.43	120.12	48.51
Vacation hours used	(12.25)	(199.00)	(151.75)	(73.75)	(55.75)
Balance	198.41	107.98	78.66	125.03	117.79
Calculated per the employee handbook:					
Hours carried forward	80.00	80.00	1.00	-	46.25
Vacation hours earned [#]	70.00	120.00	120.00	120.00	53.00
Vacation hours used ^{**}	(12.25)	(199.00)	(151.75)	(73.75)	(55.75)
Balance	137.75	1.00	(30.75)	46.25	43.50
Difference	60.66	106.98	109.41	78.78	74.29

^ - Because the employee resigned effective November 5, 2011, this is a partial year.

- Because the payroll history report was not available prior to December 2007 and Mr. Herrig's anniversary date was in July, vacation hours earned was prorated for 2007 through 2008.

** - Actual hours per the payroll leave history report.

Mr. Herrig received a vacation payout totaling \$2,462.99 upon his resignation. However, had the proper balances been carried forward, Mr. Herrig would have received \$266.60. As a result, the City incurred additional expenses of \$2,196.39 related to overpayment of Mr. Herrig's vacation payout. **Table 6** summarizes the calculation of the additional expenses incurred by the City.

Table 6

Description	Amount
Excess accumulated vacation hours per Table 5	74.29
Vacation hours used in excess of available balance	30.75
Excess vacation hours compensated	105.04
Multiplied by Mr. Herrig's hourly rate	\$ 20.91
Overpayment of Mr. Herrig's vacation payout	\$ 2,196.39

Because the vacation balances carried forward are not in compliance with the City's policy, the overpayment of vacation payouts of \$2,704.59 to Ms. Thomas and \$2,196.39 to Mr. Herrig, totaling \$4,900.98, is included in **Exhibit A** as improper disbursements.

Other Payouts – The current City Clerk also raised concerns during our fieldwork, with payouts issued to Ms. Thomas during her period of employment for accrued compensatory time and accrued personal time. We determined no other employees received payouts of this nature during their employment. As a result, we reviewed all compensatory time and personal time payouts issued to Ms. Thomas to determine if they were in compliance with the City's policy.

According to the City's employee handbook dated December 17, 2007, employees receive a payout for unused compensatory time upon resignation or retirement. However, Ms. Thomas was still employed by the City at the time her payout was issued. In August 2009, the City Council approved a resolution to approve an employment agreement and establish an annual salary for Ms. Thomas as City Administrator/City Clerk. Because she was becoming a salaried employee, she was no longer eligible to earn compensatory time. As a result, the compensatory time earned while she was an hourly employee was paid out in August 2009.

Based on a review of the resolution approved by the City Council, the authorization for the payout of 80 hours of compensatory time was handwritten by Ms. Thomas and appeared to be initialed by the former Mayor Pro Tem. However, we are unable to determine who wrote the initials on the resolution. In addition, the City Council meeting minutes only document approval of the employment agreement and annual salary for Ms. Thomas and do not address approval of the compensatory time payout. Both the resolution and the City Council meeting minutes were signed by the Mayor Pro Tem and Ms. Thomas and no correction was made in the subsequent City Council meeting minutes. As a result, we are unable to determine if the City Council members were fully aware of the terms which were approved in the resolution. Copies of the resolution and an excerpt of the August 17, 2009 City Council meeting minutes (underline added) are included in **Appendix 1**. We reviewed Ms. Thomas' employment agreement to determine if the compensatory time payout was included as a condition of the agreement and did not identify any clauses which addressed the payout. As a result, the compensatory time payout of \$2,019.20 is included in **Exhibit A** as an improper disbursement.

According to the City's employee handbook dated December 17, 2007, employees receive 2 personal days (16 hours of personal time) each anniversary year and must take all personal time prior to their next anniversary date. The policy also restricts payout of personal time to employees whose services are terminated. We identified 2 payments issued to Ms. Thomas for \$1,069.23 and \$922.88 on August 17, 2010 and August 19, 2010, respectively, for 74.50 hours of accrued personal time. The payments were issued in accordance with a resolution approved by the City Council on August 11, 2010, which included the approved wage increases for all employees. However, the resolution only addressed a pay out of personal time for Ms. Thomas. In addition, these payments are not in compliance with the City's employee handbook. Ms. Thomas was not being terminated from City employment and personal days are not to be carried forward to the next year. As a result, the personal time payouts totaling \$1,992.11 is included in **Exhibit A** as an improper disbursement.

FICA and IPERS – Each of the payouts discussed previously were processed through the City's payroll system. As a result, the City paid the employer's share of FICA and IPERS for the payments. These costs are summarized in **Table 7**. According to the IPERS Employer Handbook, special lump-sum payments made as a payout of accrued sick leave, vacation or other similar leave are not considered covered wages and should not have IPERS withheld. Because the payouts identified are improper disbursements and are not considered covered wages by IPERS, the City's share of FICA and IPERS of \$3,702.91 is also included in **Exhibit A** as improper disbursements.

Table 7

Description	Improper Payout	FICA	IPERS	Total
Sick leave payouts	\$ 24,260.01	1,855.89	715.25**	2,571.14
Vacation payouts	4,900.98	374.92	177.25**	552.17
Compensatory time payout	2,019.20	154.47	134.28	288.75
Personal time payout	1,992.11	152.40	138.45	290.85
Total	\$ 33,172.30	2,537.68	1,165.23	3,702.91

** - IPERS only paid on Mr. Herrig's sick leave and vacation payouts.

DISBURSEMENTS

We scanned images of all checks issued from the City's primary checking account for the period July 1, 2008 through June 30, 2012 and all credit card statements for the City's credit card for the period July 1, 2009 to June 30, 2011 to identify unusual disbursements or purchases which were personal in nature. We also reviewed any available documentation related to certain payments to determine if they were appropriate. In addition, we reviewed the petty cash listings for the period July 15, 2007 through August 20, 2012. Specific concerns were brought to our attention regarding payments issued to Hart-Frederick Consultants PC (Hart-Frederick). As a result, we also reviewed all invoices from Hart-Frederick for the period August 2007 to December 2012. The procedures performed are explained in detail in the following sections of this report.

Vendor Payments – We scanned images of all checks issued from the City's primary checking account and identified all payments issued to Ms. Thomas and Ms. Carter, as well as unusual vendors which could be personal in nature. We reviewed the available supporting documentation for the payments identified and determined the following:

- 65 payments totaling \$274,047.90 were issued prior to City Council approval. Of the 65 payments identified, 21 payments totaling \$220,106.31 were issued to Hart-Frederick. In addition, 7 of the 65 payments identified were approved 20 or more days after the payment was issued, with the longest span being 42 days. The 65 payments included a payment of \$5,800.00 for fireworks which was issued prior to the service being performed.
- 13 payments totaling \$2,046.70 were issued to Leslie Thomas, Ms. Thomas' daughter, for temporary office help. We located the City Council resolution approving her hire, which specified the temporary position was to terminate August 9, 2008. Because sufficient supporting documentation was not available, we are unable to determine if the work was performed. In addition, 5 of the 13 payments identified, totaling \$702.32, were issued after the August 9, 2008 termination date specified by the City Council.
- 9 payments totaling \$30,317.52 were issued for which we were unable to find supporting documentation, including \$16,000.00 to Liberty Growth L.C. for a road construction project, \$5,800.00 to Stumptown Shooters for fireworks at Trekfest, \$3,050.00 for wreaths to honor the military, \$3,000.00 to Camp Highland for field trips and \$2,211.40 for mini blinds for City Hall from J.C. Penney.
- 6 payments totaling \$10,289.10 were issued without City Council approval, including payments on the City's credit card and to Hart-Frederick, R.D. Drenkow and Godfather's Pizza.
- 5 payments totaling \$723.97 which may not meet the test of public purpose, including:

- o \$250.00 to Jerry & Marge Sweeting Catering for meals at a City fire training meeting,
- o \$225.92 and \$131.93 to Myron for key chains for welcome bags and
- o \$91.12 to Godfather's Pizza and \$25.00 to Bud's Custom Meats for a meat tray for meetings of the Community Visioning Committee.

Although there may be a public purpose for such purchases, the public purpose was not sufficiently documented through a City policy or discussion by the City Council.

- A payment issued to Hart-Frederick for \$10,713.29 which was approved for \$4,195.19. We were unable to determine why the bill listing presented to the City Council for approval did not have the correct amount.

City Credit Cards – The City had 4 Visa credit cards issued by Hills Bank and Trust Company during fiscal years 2010 and 2011. The credit cards were issued to Ms. Thomas, the Mayor and both full-time City public works employees. We determined the credit card issued to the Mayor only incurred charges in 2 months during fiscal year 2010. The credit cards were to be used for the purchase of supplies and other small items, as necessary. We reviewed all activity on the 4 credit cards and identified the following:

- 65 purchases included sales tax. Total sales tax paid by the City for fiscal years 2010 and 2011 was \$228.99. Because the City is a tax-exempt entity, sales tax should not be paid. As a result, the \$228.99 of sales tax identified is included in **Exhibit A** as improper disbursements.
- 7 purchases totaling \$1,077.19 which may not meet the test of public purpose. The 7 purchases identified include 2 for funeral plants and/or flowers, a purchase of 500 "Keep-It Clips" for \$442.08, a purchase of 300 letter openers with the City's contact information for \$187.32, a purchase of picture frames for the Community Visioning Committee for \$180.08, a purchase of white paper shopping bags to be used as welcome bags for \$166.36 and a purchase of black ribbon for \$35.01. Although there may be a public purpose for such purchases, it was not sufficiently documented through a City policy or discussion by the City Council.
- 7 purchases totaling \$89.52 for lunch meetings for Ms. Thomas at the Riverside Casino and Golf Resort. There is no documented reason to reimburse a City employee for meals purchased within the community. As a result, the \$89.52 is included in **Exhibit A** as improper disbursements.
- 5 purchases totaling \$1,699.42 for which we were unable to locate sufficient supporting documentation, including 2 purchases totaling \$1,005.00 from Kirkwood Eagle Net for continuing education for public works employees, a purchase of 500 "Keep-It Clips" for \$442.08, a purchase for \$237.93 from Eaton Corporation for batteries and a purchase for \$14.41 from JoAnn Fabric for ribbon.
- 5 statements included late fees, finance charges and interest totaling \$111.78, which are included in **Exhibit A** as improper disbursements.

In addition, we were unable to locate the June 2010 statement for the credit card assigned to a public works employee and the January 2011 and February 2011 statements for the credit card assigned to the other public works employee. As a result, we were unable to review the propriety of the credit card purchases made during those months.

Petty Cash Disbursements – We reviewed all disbursements recorded in the City's petty cash log and identified the following:

- The City Council did not establish an authorized amount. In addition, the petty cash fund was not replenished on a regular basis and restored to the same amount each time.
- 6 purchases totaling \$60.86 may not meet the test of public purpose, including lunch meetings for City employees, snacks and/or food for Community Visioning Committee meetings and thank you cards.
- 3 purchases totaling \$16.95 were for travel reimbursements to City employees. These purchases should have been paid by check and approved by the City Council.
- 2 purchases totaling \$20.55 for which we were unable to locate supporting documentation, including \$10.55 from Josten for postage and \$10.00 for the City Council agenda.

According to City representatives, the petty cash fund has been redeposited to the City's primary checking account.

Payments Issued to Hart-Frederick – The City Council designated Hart-Frederick as the City's engineering firm. During fieldwork, the current City Clerk expressed concerns regarding the frequency and amount of payments issued to Hart-Frederick because he did not feel the City had enough on-going construction projects to substantiate the amounts paid. As a result, we reviewed the City Council meeting minutes to determine the projects for which the City utilized Hart-Frederick. Based on this review, we determined the City used Hart-Frederick for a wide range of tasks, from letting bids for City construction projects to obtaining quotes for a new generator.

We reviewed all invoices the City received from Hart-Frederick and classified the work performed into 10 categories based on the description provided, as follows:

- Sewer – Projects related to the construction of new and/or expanded sewer infrastructure,
- Water – Projects related to construction of new and/or expanded infrastructure for the provision of water service to residents,
- Road – Projects related to roadway maintenance and/or expansion,
- Building – Projects related to construction and/or remodeling of City facilities,
- Combined water and sewer – Primarily related to providing sewer and water infrastructure for the Riverside Casino and Golf Resort,
- Zoning and surveying – All expenses related to zoning, plotting or surveying land within the City,
- Miscellaneous plan, maps and ordinances – Related to small City projects, drafting new or revised City ordinances and revising utility maps,
- City employee and maintenance – Functions performed by Hart-Frederick which could have been performed by existing City employees,
- Meetings – Attendance at all City Council meetings, Planning and Zoning Committee meetings and meetings with City officials, and
- Mileage – All travel incurred, including miles to/from the City.

Table 8 summarizes the Hart-Frederick invoices received by the City by category for fiscal years 2008 through 2013. As illustrated by the **Table**, Hart-Frederick billed the City for engineering costs totaling \$796,806.82 for the period reviewed. Of this amount, we could specifically identify \$25,984.00 for tasks which could have been performed by existing City employees. In addition, \$9,391.26 was for mileage, primarily between the City of Tiffin where Hart-Frederick is located

and the City of Riverside, and \$4,185.00 was for a representative of Hart-Frederick to attend various City meetings. Because the Hart-Frederick invoices were not sufficiently detailed, these amounts are conservative. Had more detail been available, we may have identified additional payments for tasks which could have been performed by City employees.

Table 8

Category	2008	2009	2010	2011	2012	2013^	Total
Sewer	\$ 13,512.50	26,000.90	40,085.75	77,180.58	32,344.75	56,532.75	245,657.23
Road	7,998.25	30,348.70	36,682.06	58,523.75	65,219.40	5,923.45	204,695.61
Miscellaneous plans, maps and ordinances	18,768.63	7,910.70	16,782.26	12,950.07	16,864.12	14,963.50	88,239.28
Water	9,064.04	37,762.50	27,687.50	3,078.75	722.50	-	78,315.29
Building	27,586.67	387.50	-	-	20,950.15	4,308.86	53,233.18
Zoning and surveying	1,285.00	1,710.00	1,877.00	9,607.00	21,959.80	13,350.50	49,789.30
Combined water and sewer	22,504.02	13,142.65	1,670.00	-	-	-	37,316.67
City employee and maintenance	1,195.00	5,366.25	720.00	6,865.00	9,983.75	1,854.00	25,984.00
Mileage	1,471.06	1,393.71	1,135.47	1,861.07	3,198.85	331.10	9,391.26
Meetings	-	-	40.00	85.00	3,550.00	510.00	4,185.00
Total	\$ 103,385.17	124,022.91	126,680.04	170,151.22	174,793.32	97,774.16	796,806.82

^ - Partial fiscal year through December 2012.

We also reconciled the Hart-Frederick invoices reviewed to the payments issued to Hart-Frederick by the City for the period reviewed and identified payments totaling \$27,180.59 for which we were unable to locate the corresponding invoices. As a result, the \$27,180.59 of unsupported payments identified is not included in the **Table**.

Based on the invoices reviewed, Hart-Frederick worked an average of 34 hours per week on projects, ranging from an average of 22 hours per week in fiscal year 2008 to 43 hours per week in fiscal year 2013. Using the hours and rates detailed on the invoices, we determined the City paid Hart-Frederick an average rate of \$77.00 per hour, ranging from \$68.00 per hour in fiscal year 2008 to \$85.00 per hour in fiscal year 2013.

Because sufficient detail was not available, we are unable to determine the propriety of the billings. However, as previously stated, we identified many tasks which were handled by Hart-Frederick which could have been handled by the City's existing public works employees, such as obtaining quotes for a new generator or contacting the City's supplier regarding faulty water meters. If such tasks increase the workload beyond that which can be handled by existing City employees, the City Council should evaluate whether it would be more cost effective to hire an additional employee rather than continuing to hire an engineering firm to handle these responsibilities.

COLLECTIONS

As previously stated, the City's primary revenue sources include taxes from the State of Iowa and Washington County and the annual contributions from the Riverside Casino and Golf Resort. In addition, revenue is received from utility collections for water and sewer fees assessed to each household and business which receives service. We reviewed documentation related to each of these revenue sources to determine if collections were properly deposited.

Taxes from the State and County – We determined payments from the County for property tax are deposited electronically. We confirmed all payments from the State and determined all payments were properly deposited to the City's checking account.

Annual Contributions from the Riverside Casino and Golf Resort – We confirmed all payments from the Riverside Casino and Golf Resort for the period August 2008 through June 2012 and determined all payments were properly deposited to the City’s bank accounts.

Water and Sewer Fees – Water and sewer service is provided to each household and business within the City. Each household and business is billed each month for service. According to Ms. Thomas, monthly reconciliations of the amounts billed, collected, deposited and delinquent amounts were prepared. However, we were unable to locate copies of such reconciliations. As a result, we were unable to ensure all fees were properly billed, collected and subsequently deposited to the City’s bank accounts. However, we summarized all utility deposits in the City’s primary checking account for the period July 1, 2009 through June 30, 2012 and the amounts deposited appeared reasonable. In addition, we requested the deposit composition from the City’s bank and determined the cash payments deposited were consistent and appeared reasonable.

During fieldwork, the current City Clerk expressed concerns with the calculation of late fees and accounts written off as uncollectible. We reviewed all utility account write-offs performed on the City’s current utility system for the period December 2007 through December 2012 and determined all write-offs during the period were recorded on October 30, 2010. We reviewed the City Council meeting minutes and resolutions to determine if the 18 write-offs identified were properly approved.

We located 2 City Council resolutions approving the write-off of utility accounts. The resolution dated December 5, 2005 precedes the implementation of the City’s current utility system; however, we reviewed the resolution to determine if the write-offs were properly approved and determined the resolution did not document the amount for the customer accounts written off as uncollectible. The resolution dated October 18, 2010 approved all write-offs recorded on the City’s current utility system. However, based on a review of the customer account history reports, we determined 11 of the 18 write-offs identified were recorded prior to approval. Of the 11 write-offs recorded prior to approval, 10 were recorded on July 1, 2009. The 18 write-offs identified were subsequently reversed and recorded again after City Council approval was obtained.

We reviewed the customer account history reports for the 18 accounts written off as uncollectible to determine if late fees had been properly calculated and assessed. According to the City’s ordinances, late fees are to be calculated at 5% of the amount owed. Based on our review, we identified the following:

- All history reports reviewed contained instances of a \$3.00 minimum late fee being assessed unless the 5% late fee exceeded \$3.00. If the late fee exceeded \$3.00, the correct penalty was paid in accordance with the City’s ordinances.
- 15 history reports contained instances of a flat fee of \$3.00 being assessed, even if 5% of the amount owed was greater than \$3.00.
- 13 history reports contained instances of the late fees not being calculated correctly. Of these, 8 history reports showed late fees calculated at less than 5% and 5 showed late fees calculated at more than 5%.
- 4 history reports contained instances of a late fee being assessed even though the customers had a credit balance on their accounts. An adjustment was subsequently recorded to correct the improper late fees for 1 of the 4 customer accounts identified.
- A history report contained an instance in which a customer was billed twice for the same month.

According to representatives of the City, the utility system automatically calculates all late fees on customer accounts and the miscalculations identified were a result of computer error. However, had a review of the utility billings and calculations been performed, the errors would have been identified and the City could have taken action to correct them.

Donation to the City – In 2004, William Shatner donated \$100,000.00 to the City, which was deposited to a certificate of deposit (CD) shortly after it was received. From the time the donation was made to present, there has been considerable debate between the City and the Riverside Area Community Club (RACC) as to who the intended recipient of the donation was. According to City officials, the donation was a gift to the community to be administered by the City. However, based on a review of communications between the City and RACC, RACC believes the donation was intended for their organization to use for the annual Trekfest but issued to the City to hold until the RACC could obtain non-profit status. Based on a review of available documentation, we are unable to determine which party was the intended recipient.

In addition, during fieldwork, the current City Clerk and a concerned citizen expressed concerns the CD had been improperly redeemed. We reviewed the City's bank statements for all accounts, the investments recorded in the City's accounting system, the City Council meeting minutes and the supporting documentation for the CD. As a result, we determined the City Council approved the redemption of the CD and deposit of the proceeds in the City's money market account on October 3, 2011. We determined the proceeds were properly deposited to the City's money market account on October 13, 2011. The City Council has not approved any disbursements specifically from this donation. Currently, the City's money market account has a sufficient balance to allow the City Council to earmark \$100,000.00 plus interest until the intended recipient of the donation can be identified.

OTHER ADMINISTRATIVE ISSUES

The City Council has a fiduciary responsibility to exercise authority over its funds, efficiently and effectively achieve its mission, provide oversight of the City's operations and maintain the public trust. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. During our investigation, we determined the City Council did not properly carry out its oversight responsibilities as officials of the City. The concerns identified include:

- In approximately fiscal year 2007, the City began receiving hotel/motel tax revenue and established a grant program funded with the tax revenue received for which various City committees may submit projects for funding consideration. At approximately the same time, the City began receiving an annual contribution totaling \$1.7 million from the Riverside Casino and Golf Resort. However, the City did not develop a comprehensive plan to identify and prioritize the community development projects for which the funds could be used, to specify how use of the funds was to be monitored and to specify if a reserve should be maintained.

The annual contribution has allowed the City to increase the ending fund balance of the City's General Fund and establish a money market account to reserve funds not needed for current operations. While the City Council has the ability to direct how the annual contribution is spent, the City Council also has a responsibility to ensure the use of the funds is in the best interests of the City and meets a public purpose. We identified several areas approved by the City Council for which it was not readily apparent or documented how the best interests of the City were served or a public purpose was met, such as:

- providing 100% employer funded FSAs to employees in addition to 100% employer funded health insurance for single coverage and 90% employer funded health insurance for family coverage,
- utilization of an engineering firm to handle tasks which could be assigned to existing City public works employees,
- approving payouts of paid leave which are not in accordance with the City's policy,

- providing a \$200 per month car allowance to a previous City Clerk for travel within Washington and Johnson Counties and mileage for travel outside the designated counties and
- providing annual holiday bonuses to employees.

Based on a review of the City's payroll records, the car allowance for the City Clerk was not consistently paid. It is unclear how the car allowance was monitored and who ensured it was appropriately administered. Neither the current City Clerk nor the current Deputy City Clerk receives a monthly car allowance.

According to the Mayor, he is frustrated the City has not been "good stewards" of the contributions received. He further stated the City originally discussed using the additional revenue to construct a community center which has never been started. The Mayor stated the funding received to date has been used to fund a portion of a new "state of the art" water and sewer system, remodel the former fire station as the new City Hall and construct a new fire station. In addition, he stated the City has not done a good job establishing a comprehensive plan or overall vision, adding, "We have had many projects but no direct goal." The Mayor also indicated the City discussed drafting a comprehensive plan and has hired a firm to assist with the process.

As of October 31, 2013, the City held approximately \$2,331,000 in City bank accounts, including checking accounts, savings accounts, money market accounts and certificates of deposit.

- During fieldwork, the current City Clerk and a concerned citizen expressed concerns regarding the voting practices of the City Council members. They believe there are 2 "groups" within the City Council who always vote in a similar manner. Based on a review of City Council meeting minutes for calendar year 2012, we identified numerous instances where the vote on various issues was 3 in favor and 2 against, with the same City Council members voting the same direction each time.

Based on a review of available City Council meeting minutes and according to City officials, the same 2 City Council members voted against the following; however, neither City Council discussion nor the reason for the dissenting votes was clearly documented in all cases:

- approval of the March 1, 2012 agenda,
- the City Council reviewing a monthly log of employee overtime, including employee name, number of overtime hours worked and the reason the overtime was necessary,
- requiring citizens wishing to videotape the City Council meetings to sit along the back or side walls to prevent those individuals from disturbing other attendees and
- prohibiting the removal of items placed on the agenda by the Mayor or any City Council Member by anyone other than the individual who originally requested the discussion.

In addition, according to discussions with current City employees and the Mayor, several individuals stated a City Council member began voting against most motions and City Council resolutions as a form of retaliation after the City Council took legal action against him in calendar year 2011 as the result of a nuisance order issued by the City.

While the City Council meeting minutes appear to substantiate the belief certain City Council members vote as "groups," this does not violate Iowa law. However, City officials should ensure they are serving the best interest of the citizens.

- At the September 19, 2011 City Council meeting, the City Council began discussing the development of a splash pad at a City park. At this meeting, the City Council voted unanimously to approve a City resolution approving matching funds up to \$120,000.00 for the development of a splash pad at Hall Park. At the same meeting, the City Council voted unanimously to approve a City resolution to submit an application to the Washington County Riverboat Foundation (Foundation) to obtain a grant for the splash pad project. According to the current City Clerk, the Foundation approved a \$70,000.00 grant for the project. However, no documentation was available to determine whether the funds were drawn by the City. According to a representative of the Foundation, the City declined the grant a year after it was approved. Therefore, no funds were issued to the City. Subsequently, at the December 5, 2011 City Council meeting, the City Council approved a City resolution approving the remaining funds needed for the splash pad project. Because sufficient documentation was not available, we were unable to determine whether the funding approved was above and beyond the initial \$120,000.00 approved by the City Council and the \$70,000.00 grant from the Foundation. The vote for this resolution was split with a City Council member voting against the project because of the designated location.

In January 2012, 2 new City Council members took office, as well as a new Mayor. After the newly elected officials took office, there were many disagreements and considerable discussion regarding the splash pad project. At the February 6, 2012 City Council meeting, a new City resolution setting the date for the public hearing and bid letting for the splash pad project was passed with 2 City Council members voting against the resolution. The City Council members voting against the resolution stated they did not agree with the location designated for the splash pad. In addition, 1 of the 2 City Council members stated he felt the project was rushed through approvals.

At the February 21, 2012 City Council meeting, a City Council member stated he voted against the previous resolution because he did not have enough information on the project. The other City Council member voting against the resolution stated he previously voted against the project because he felt it was pushed through and the City cannot afford it. He further stated the project did not start out right and the City Council members should have come together as a group. During the same discussion, a City Council member supporting the project expressed her disappointment in the Mayor for vetoing the previous resolution. Because sufficient documentation was not maintained, we were unable to determine the date of the Mayor's veto or the circumstances surrounding the veto.

At the March 5, 2012 City Council meeting, the City Council authorized the City's engineer to prepare plans for the splash pad and determine the costs associated with the project if various options were selected. The information provided by the engineer was to be used as part of a resident survey being conducted to determine if the splash pad project should be continued. The motion was approved with the same 2 City Council members voting against the action. The validity of the motion was questioned by a City Council member and the Mayor because they felt the other City Council members were using a motion to overturn a veto. The City Council requested the City's attorney research the issue.

At the April 16, 2012 City Council meeting, the City Attorney stated, "As to the veto issue, I know of no restriction why a motion can't be used to override a veto. Additionally, the veto was used on a particular resolution. The use of a veto on a resolution relates to that resolution only, not to the entire range of issues related to the subject of the resolution. As I understand the question, the item requested to be on the agenda is different from the specifics contained in the resolution. Therefore...motion appears to be appropriate. The entire splash pad concept was not vetoed." As a result, the motion was considered valid.

As of December 31, 2012, the City has spent \$21,261.65 on the planning of the splash pad project but has not started development.

- During fieldwork, a concerned citizen expressed concerns regarding the operations of the City's Community Visioning Committee (Committee). Based on a review of available documentation, the Committee appears to have formed in 2009 after the City received a grant. However, we were unable to locate a City ordinance authorizing the Committee.

The Committee functions to evaluate various community projects, such as walking trails, City entrance signs and downtown revitalization. The City Council establishes a set amount of funding to be allocated to projects recommended by the Committee, but does not provide much oversight of the Committee's activities. We were unable to locate any policies and procedures defining the Committee's authority or the process by which recommendations were to be made to the City Council.

We identified several instances where the Committee authorized the purchase of goods or services using City funds prior to obtaining City Council approval. Although the payments were presented to the City Council for approval, the purchases had already been made, thereby reducing or eliminating the City Council's ability to deny the purchase. As a result, the City Council cannot ensure the funds spent by the Committee meet the test of public purpose or are in the best interests of the City.

In addition, based on a review of the Committee's meeting minutes, we determined the Committee requests the City Council carry forward the unused portion of the earmarked funds to the next fiscal year.

- From August 2011 to November 2011, we identified 4 transfers totaling \$800,000.00 from the City's money market account to the City's primary checking account. Although the funds were properly deposited, none of the transfers identified were approved by the City Council.
- Subsequent to Ms. Carter's resignation in July 2012, the City Council meeting minutes were no longer routinely signed or reviewed.

Recommended Control Procedures

As part of our investigation, we reviewed the procedures used by the City of Riverside to process receipts, disbursements and payroll. An important aspect of internal control is to establish procedures which provide accountability for assets susceptible to loss from errors and irregularities. These procedures provide the actions of one individual will act as a check on those of another and provide a level of assurance errors or irregularities will be noted within a reasonable time during the course of normal operations. Based on our findings and observations detailed below, the following recommendations are made to strengthen the City's internal controls.

- A. Segregation of Duties – An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The former City Administrator/City Clerk had control over each of the following areas:
- (1) Investments – maintaining detailed records, custody of investments and reconciling earnings,
 - (2) Long-term debt – recording and reconciling,
 - (3) Receipts – collecting, posting to the accounting records and preparing and making bank deposits,
 - (4) Disbursements – making purchases, receiving certain goods and services, presenting disbursements to the City Council for approval, maintaining

supporting documentation, preparing, signing and distributing checks and posting payments to the accounting records,

- (5) Payroll – calculating, preparing, signing and distributing checks and posting payments to the accounting records,
- (6) Utility billings – preparing and mailing billings, collecting payments, posting billings and payments to customer accounts and preparing and making bank deposits,
- (7) Bank accounts – receiving and reconciling monthly bank statements to accounting records and
- (8) Reporting – preparing City Council meeting minutes and financial reports, including monthly City Clerk’s financial reports and the Annual Financial Report.

In addition, dual signatures are not required on checks issued from the City’s checking accounts.

Recommendation – We realize segregation of duties is difficult with a limited number of staff. However, the duties within each function listed above should be segregated between the City Administrator/City Clerk, the Deputy City Clerk, the Mayor and City Council members. In addition, the City Council should review financial records, perform reconciliations and examine supporting documentation for account records on a periodic basis. Bank statements should be delivered to and reviewed by an official who does not collect or disburse City funds and bank reconciliations should be performed on a monthly basis.

All checks issued by the City should have dual signatures to ensure at least 2 individuals verify the payee and amount of the check and review the related supporting documentation to ensure the payment is appropriate.

B. Employee Benefit Payouts – During our review of benefit payouts issued to certain employees, the following were identified:

- (1) The City issued accrued sick leave, compensatory time and personal time payouts totaling \$33,165.40 which were not in compliance with the City’s employee handbook.
- (2) The City Council meeting minutes did not include the number of hours or the amount for the sick leave and vacation payouts. As a result, we are unable to determine if the City Council members were fully aware of the amounts being approved.
- (3) For 2 employees, all accrued vacation hours were carried forward each year, which is not in compliance with the 80 hour limit established by the City’s employee handbook. As a result, the City incurred additional expenses related to overpayment of the employees’ vacation payouts.
- (4) The approval for Ms. Thomas’ compensatory time payout was handwritten on the City resolution and the City Council meeting minutes do not document approval for the compensatory time payout issued to Ms. Thomas. As a result, we are unable to determine if the compensatory time payout was properly approved.

Recommendation – The City Council should ensure all payouts issued to City employees are in compliance with the City’s employee handbook. In addition, the City Council should review the number of hours and amount for all payouts approved. An independent person should periodically review payroll to ensure paid leave is being properly accrued.

C. FSA/HRA Accounts – During our review of employee benefits, the following were identified:

- (1) We were unable to locate City Council approval for the HRA. The City incurred expenses of \$25,580.59 related to contributions to employee HRA accounts.
- (2) The City's contributions to the employee FSA accounts were not calculated correctly.
- (3) We were unable to locate City Council approval for the payments to the third-party administrator to be issued electronically. In addition, not all payments to the third-party administrator were presented to the City Council for approval.

Recommendation – The City Council should review the current employee benefit package to ensure all benefits offered to employees are properly approved, are clearly defined in the employee handbook and serve the best interests of the City. In addition, all disbursements, including electronic payments, should be presented to the City Council for approval prior to payment.

D. Disbursements – During our review of disbursements, we identified the following:

- (1) 65 payments totaling \$274,047.90 were issued prior to City Council approval. Of the 65 payments identified, 21 payments totaling \$220,106.31 were issued to Hart-Frederick. In addition, 7 of the 65 payments identified were approved 20 or more days after the payment was issued, with the longest span being 42 days. The 65 payments included a payment of \$5,800.00 for fireworks which was issued prior to the service being performed.
- (2) 13 payments totaling \$2,046.70 issued to Leslie Thomas, Ms. Thomas' daughter, for temporary office help. We located the City Council resolution approving her hire, which specified the temporary position was to terminate August 9, 2008. Because sufficient supporting documentation was not available, we are unable to determine if the work was performed. In addition, 5 of the 13 payments identified, totaling \$702.32, were issued after the August 9, 2008 termination date specified by the City Council.
- (3) 9 payments totaling \$30,317.52 for which we were unable to find supporting documentation, including \$16,000.00 to Liberty Growth L.C. for a road construction project, \$5,800.00 to Stumptown Shooters for fireworks at Trekfest, \$3,050.00 for wreaths to honor the military, \$3,000.00 to Camp Highland for field trips and \$2,211.40 for mini blinds for City Hall from J.C. Penney.
- (4) 6 payments totaling \$10,289.10 issued without City Council approval, including payments on the City's credit card and to Hart-Frederick, R.D. Drenkow and Godfather's Pizza.
- (5) 5 payments totaling \$723.97 which may not meet the test of public purpose, including:
 - a) \$250.00 to Jerry & Marge Sweeting Catering for meals at a City fire training meeting,
 - b) \$225.92 and \$131.93 to Myron for key chains for the welcome bags and
 - c) \$91.12 to Godfather's Pizza and \$25.00 to Bud's Custom Meats for a meat tray for meetings of the Community Visioning Committee.

Although there may be a public purpose for such purchases, the public purpose was not sufficiently documented through a City policy or discussion by the City Council.

- (6) A payment issued to Hart-Frederick for \$10,713.29 which was approved for \$4,195.19. We are unable to determine why the bill listing presented to the City Council for approval did not have the correct amount.

In addition, the City had 4 credit cards issued to 3 employees and the Mayor. During our review of credit card purchases, we identified the following:

- (1) 65 purchases included sales tax totaling \$228.99.
- (2) 7 purchases totaling \$1,077.19 which may not meet the test of public purpose. The 7 purchases identified include 2 for funeral plants and/or flowers, a purchase of 500 "Keep-It Clips" for \$442.08, a purchase of 300 letter openers with the City's contact information for \$187.32, a purchase of picture frames for the Community Visioning Committee for \$180.08, a purchase of white paper shopping bags to be used as welcome bags for \$166.36 and a purchase of black ribbon for \$35.01. Although there may be a public purpose for such purchases, the public purpose was not sufficiently documented through a City policy or discussion by the City Council.
- (3) 7 purchases totaling \$89.52 for lunch meetings for Ms. Thomas at the Riverside Casino and Golf Resort.
- (4) 5 purchases totaling \$1,699.42 for which we were unable to locate sufficient supporting documentation, including 2 purchases totaling \$1,005.00 from Kirkwood Eagle Net for continuing education for public works employees, a purchase of 500 "Keep-It Clips" for \$442.08, a purchase for \$237.93 from Eaton Corporation for batteries and a purchase for \$14.41 from JoAnn Fabric for ribbon.
- (5) 5 statements included late fees, finance charges and interest totaling \$111.78.

In addition, we were unable to locate the June 2010 statement for the credit card assigned to a public works employee and the January 2011 and February 2011 statements for the credit card assigned to the other public works employee. As a result, we were unable to review the propriety of the purchases.

Recommendation – All City disbursements should be approved by the City Council prior to payment, with the exception of those specifically allowed by a City Council approved policy. For those disbursements paid prior to City Council approval, a listing should be provided to the City Council at the next City Council meeting for review and approval. All payments should be remitted in a timely manner to ensure late fees and interest are not incurred. In addition, the City should implement procedures to ensure sales tax is not paid.

All City disbursements should be supported by itemized receipts, original invoices or other appropriate supporting documentation. The City Council should review all disbursements to ensure they meet the test of public purpose as defined in an Attorney General's opinion dated April 25, 1979. According to the opinion, it is possible for certain expenses to meet the test of serving a public purpose under certain circumstances, although such expenses will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin. If the City Council believes a transaction, or group of transactions, meets the test of public purpose, this should be documented through the City Council meeting minutes or approval of a City policy.

The City should also consider the tax implications of paying for meals for employees within the community and ensure such amounts are properly reported for income tax purposes.

E. Utilities – We identified 18 utility account write-offs during the period reviewed. Of the 18 write-offs identified, 11 were recorded prior to City Council approval. In addition, we reviewed the customer account history reports for the 18 accounts written off as uncollectible and identified the following:

- (1) All history reports reviewed contained instances of a \$3.00 minimum late fee being assessed.
- (2) 15 history reports contained instances of a flat fee of \$3.00 being assessed, even if 5% of the amount owed was greater than \$3.00.
- (3) 13 history reports contained instances of the late fees not being calculated correctly. Of these, 8 history reports showed late fees calculated at less than 5% and 5 showed late fees calculated at more than 5%.
- (4) 4 history reports contained instances of a late fee being assessed even though the customers had a credit balance on their accounts. An adjustment was subsequently recorded to correct the improper late fees for 1 of the 4 customer accounts identified.
- (5) A history report contained an instance in which a customer was billed twice for the same month.
- (6) Monthly utility reconciliations of amounts billed, collected, deposited and delinquent accounts are not prepared.

Recommendation – The City Council should ensure all late fees are calculated in accordance with the City's ordinance. The City should prepare monthly utility reconciliations of amounts billed, collected, deposited and delinquent accounts. In addition, an independent person should periodically review the utility reconciliations to ensure all accounts written off as uncollectible were properly approved by the City Council. All rates entered into the utility system should also be reviewed periodically to ensure they comply with the City's ordinances. If a system error is identified, the City should work with the software vendor to resolve the issue.

F. City Council Minutes – Chapter 21 of the *Code of Iowa* requires minutes be kept of all meetings of governmental bodies. During our review of minutes, we determined:

- (1) Beginning July 7, 2012, the minutes were not properly signed by the City Clerk and/or Mayor to authenticate the record as required by section 380.7(4) of the *Code of Iowa*.
- (2) Not all disbursements were presented to the City Council for approval.
- (3) Transfers between the City's bank accounts were not presented to the City Council for approval.

Recommendation – The City Council should implement procedures to ensure either the City Clerk or the Mayor sign all meeting minutes and any errors are noted and corrected. In addition, the City Council should ensure all City obligations and bank transfers are presented to the City Council for approval and are paid in a timely manner.

G. Petty Cash – During our review of the City's petty cash log, we identified the following:

- (1) The City Council has not established an authorized amount. In addition, the petty cash fund was not replenished on a regular basis and restored to the same amount each time.
- (2) 6 purchases totaling \$60.86 may not meet the test of public purpose, including lunch meetings for City employees, snacks and/or food for Community Visioning Committee meetings and thank you cards.

- (3) 3 purchases totaling \$16.95 were for travel reimbursements to City employees. These purchases should have been paid by check and approved by the City Council.
- (4) 2 purchases totaling \$20.55 for which we were unable to locate supporting documentation, including \$10.55 from Josten for postage and \$10.00 for the City Council agenda.

According to City representatives, the petty cash fund has been redeposited to the City's primary checking account.

Recommendation – Should the City Council choose to establish a petty cash fund in the future, the fund should have an established amount and be on an imprest basis. In addition, the City Council should implement procedures to ensure all petty cash reimbursements are appropriate. All disbursements from petty cash should be supported by appropriate documentation and the documentation should be “bundled” and used as support to replenish the petty cash to the established balance. Only authorized payments should be made from petty cash and it should not be used as a change account from which employees may cash personal checks.

- H. Use of Hart-Frederick – Based on a review of the invoices received by the City from Hart-Frederick, we identified many tasks, such as obtaining quotes for a new generator and contacting the City's supplier regarding faulty water meters, which could have been performed by existing City public works employees. The extent to which the City uses Hart-Frederick may not be cost effective and in the best interest of the City.

Recommendation – The City Council should monitor its use of Hart-Frederick and determine whether there are tasks assigned which would be more cost effective if performed by existing City employees. If the City Council determines the additional workload could not be absorbed by existing City employees, it should determine if it would be more cost effective to hire an additional part-time or full-time employee.

- I. Donation – In 2004, William Shatner donated \$100,000.00 to the City, which was deposited to a certificate of deposit (CD) shortly after it was received. From the time the donation was made to the present, there has been considerable debate between the City and the Riverside Area Community Club (RACC) as to who the intended recipient of the donation was. According to City officials, the donation was a gift to the community to be administered by the City. However, based on a review of communications between the City and RACC, RACC believes the donation was intended for their organization to use for the annual Trekfest but was issued to the City to hold until the RACC could obtain non-profit status. Based on a review of available documentation, we are unable to determine which party was the intended recipient.

Recommendation – The City Council should either consult legal counsel to determine the disposition of this matter or confer with the RACC to determine if a joint decision can be reached on the use of the funds.

- J. City Council Oversight – The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the “watchful and responsible care” a governing body exercises in its fiduciary capacity. Based on our observations and procedures performed, we identified the City Council failed to exercise proper fiduciary oversight.

The annual contribution received from the Riverside Casino and Golf Resort has allowed the City to increase the ending fund balance of the City's General Fund and establish a money market account to reserve funds not needed for current operations. However, the

City Council has not developed a comprehensive plan to identify and prioritize the community development projects for which the annual contributions could be used, to specify how the use of the funds is to be monitored and to specify if a reserve should be maintained. For example, projects such as the construction of a splash pad within the City would be addressed within a comprehensive plan. The City Council discussed drafting a comprehensive plan and has hired a firm to assist with the process.

Recommendation – Oversight by the City Council is essential and should be an ongoing effort by all members. In the future, the City Council should exercise due care and require and review pertinent information and documentation prior to making decisions affecting the City. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

The City Council should continue to work with the firm hired to develop the comprehensive plan to ensure the annual contributions from the Riverside Casino and Golf Resort are used in the best interest of the City. As part of the process, the City Council should review projects which have previously been discussed and approved, such as the construction of a splash pad within the City, to ensure continuation of the project is in the best interests of the City.

- K. Community Visioning Committee – The Committee was informally established in 2009, although we were unable to locate documentation establishing the Committee as an official City organization or its purpose. In addition, we identified several instances where the Committee authorized the purchase of goods and/or services using City funds prior to obtaining City Council approval. We were unable to locate any policies or procedures addressing how the Committee was to operate. In addition, the Committee requests the City Council carry forward the unused portion of authorized annual funding to the next fiscal year.

Recommendation – The City Council should determine the purpose of the Committee and evaluate whether the Committee should continue to exist. If the City Council believes the existence of the Committee is beneficial to the City, the City Council should approve an ordinance establishing the Committee and specifying its purpose and authority. In addition, formal procedures should be developed and implemented for the approval of goods and/or services purchased by the Committee, including obtaining prior approval from the City Council and providing sufficient supporting documentation to the City Council for the approval of payments. The City Council should discontinue its practice of carrying forward the unused portion of funds authorized for the Committee and approve an authorized amount at the beginning of each fiscal year.

Exhibits

Report on Special Investigation of the
City of Riverside

Summary of Findings
For the period January 1, 2006 through December 31, 2012

Description	Exhibit/ Table/ Page Number	Amount
Improper disbursements:		
Excess FSA contributions	Exhibit B	\$ 204.96
HRA distributions	Exhibit B	25,580.59
Administrative fees for the unauthorized HRAs	Table 2	970.80
Sick leave payouts	Table 3	24,260.01
Vacation payouts	Page 14	4,900.98
Compensatory time payout	Page 14	2,019.20
Personal time payout	Page 14	1,992.11
FICA and IPERS on payouts	Table 7	3,702.91
Sales tax	Page 16	228.99
Lunch reimbursements	Page 16	89.52
Late fees, finance charges and interest	Page 16	111.78
Total		<u>\$ 64,061.85</u>

Report on Special Investigation of the
City of Riverside

Employee Flexible Spending Accounts and Health Reimbursement Arrangement Accounts
For the period January 1, 2006 through December 31, 2012

Employee	Calculated Maximum	Employee Benefit Election			FSA		
	Benefit Allowance	FSA Election	HRA Election	Total Election	Contributions	Distributions	Balance
Calendar Year 2006^^:							
Tina Thomas	\$ 4,021.14	2,920.92	-	2,920.92	2,001.02	2,043.81	(42.79)
Kevin Engel	1,774.68	674.46	-	674.46	674.46	1,348.92	(674.46)
Subtotal	5,795.82	3,595.38	-	3,595.38	2,675.48	3,392.73	(717.25) *
Calendar Year 2007:							
Tina Thomas	6,738.30	5,054.52	2,940.00	7,994.52	5,054.52	5,054.52	-
Kevin Engel	3,662.70	5,129.52	2,940.00	8,069.52	5,129.52	3,499.57	1,629.95
Bryan Lenz	991.74	-	2,940.00	2,940.00	-	-	-
Brad Herrig	-	-	2,940.00	2,940.00	-	-	-
Subtotal	11,392.74	10,184.04	11,760.00	21,944.04	10,184.04	8,554.09	1,629.95 ^
Calendar Year 2008:							
Tina Thomas	9,455.72	6,000.00	3,062.16	9,062.16	6,000.00	6,000.00	-
Kevin Engel	5,969.48	6,000.00	2,940.00	8,940.00	6,000.00	2,582.73	3,417.27
Bryan Lenz	1,190.12	607.20	2,940.00	3,547.20	607.20	520.00	87.20
Brad Herrig	-	-	2,940.00	2,940.00	-	-	-
Subtotal	16,615.32	12,607.20	11,882.16	24,489.36	12,607.20	9,102.73	3,504.47 ^
Calendar Year 2009:							
Tina Thomas	11,792.40	6,000.00	6,316.44	12,316.44	6,000.00	6,000.00	-
Kevin Engel	7,267.92	6,000.00	1,839.36	7,839.36	6,000.00	3,493.48	2,506.52
Bryan Lenz	1,190.16	1,237.56	-	1,237.56	1,237.56	1,087.00	150.56
Subtotal	20,250.48	13,237.56	8,155.80	21,393.36	13,237.56	10,580.48	2,657.08 ^
Calendar Year 2010:							
Tina Thomas	11,603.16	6,000.00	6,118.92	12,118.92	6,000.00	6,000.00	-
Kevin Engel	7,208.40	6,000.00	1,774.56	7,774.56	6,000.00	3,937.41	2,062.59
Bryan Lenz	1,266.36	1,316.76	-	1,316.76	1,316.76	1,316.76	-
Subtotal	20,077.92	13,316.76	7,893.48	21,210.24	13,316.76	11,254.17	2,062.59 ^

HRA				
Excess Contributions**	Beginning Balance	"Credits"	Distributions	Ending Balance
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	2,940.00	2,094.85	845.15 @
-	-	2,940.00	-	2,940.00 @
-	-	2,940.00	-	2,940.00 @
-	-	2,940.00	-	2,940.00 @
-	-	11,760.00	2,094.85	9,665.15
-	-	3,062.16	3,062.16	-
-	-	2,940.00	134.00	2,806.00 @
-	-	2,940.00	-	2,940.00 @
-	-	2,940.00	-	2,940.00 @
-	-	11,882.16	3,196.16	8,686.00
-	-	6,316.44	5,596.51	719.93 @
-	-	1,839.36	-	1,839.36 ##
-	-	-	-	-
-	-	8,155.80	5,596.51	2,559.29
-	-	6,118.92	4,009.00	2,109.92
-	-	1,774.56	13.50	1,761.06
50.40	-	-	-	-
50.40	-	7,893.48	4,022.50	3,870.98

Report on Special Investigation of the
City of Riverside

Employee Flexible Spending Accounts and Health Reimbursement Arrangement Accounts
For the period January 1, 2006 through December 31, 2012

Employee	Calculated Maximum Benefit Allowance	Employee Benefit Election			FSA		
		FSA Election	HRA Election	Total Election	Contributions	Distributions	Balance
Calendar Year 2011:							
Tina Thomas	12,156.24	6,000.00	6,696.48	12,696.48	2,999.88	3,511.99	(512.11)
Kevin Engel	7,569.12	6,000.00	2,163.36	8,163.36	5,999.76	3,470.88	2,528.88
Bryan Lenz	1,354.92	1,408.92	-	1,408.92	1,408.68	1,408.92	(0.24)
Missy Carter	679.50	724.50	-	724.50	721.60	724.50	(2.90)
Subtotal	21,759.78	14,133.42	8,859.84	22,993.26	11,129.92	9,116.29	2,013.63 #
Calendar Year 2012:							
Kevin Engel	6,866.04	3,701.82	3,701.82	7,403.64	3,417.12	2,080.98	1,336.14
Bryan Lenz	1,397.04	1,452.60	-	1,452.60	1,340.64	1,452.60	(111.96)
Missy Carter	840.72	896.28	-	896.28	672.36	828.86	(156.50)
Teresa Sladek	3,514.77	4,338.24	-	4,338.24	2,107.15	1,049.34	1,057.81
Subtotal	12,618.57	10,388.94	3,701.82	14,090.76	7,537.27	5,411.78	2,125.49 #
Total	\$ 108,510.63	77,463.30	52,253.10	129,716.40	70,688.23	57,412.27	13,275.96

** - Represents the amount of distributions exceeding the calculated maximum benefit allowance.

^^ - Represents a partial year from July 1, 2006 through December 31, 2006.

* - Agrees with the payment issued to the third-party administrator by the City on June 25, 2007.

^ - Agrees with the refund check received from the third-party administrator and deposited to the City's checking account.

@ - Balance was not carried forward by the third-party administrator.

- Balance inadvertently not carried forward to calendar year 2010. Later corrected and carried forward to calendar year 2011.

~ - Balance not carried forward because the plan was terminated in the next calendar year.

- The refund checks received for calendar years 2011 and 2012 total \$2,308.63 and \$2,433.97, respectively. For calendar year 2011, \$2,013.63 was for unused employee FSA contributions and \$295.00 was for overpayment of fees and, for calendar year 2012, \$2,125.49 was for unused employee FSA contributions and \$308.48 was for overpayment of fees.


Excess Contributions**	HRA			Ending Balance	
	Beginning Balance	"Credits"	Distributions		
-	2,109.92	4,464.32	3,137.61	3,436.63	~
-	3,600.42	2,163.36	2,382.10	3,381.68	
54.00	-	-	-	-	
45.00	-	-	-	-	
99.00	5,710.34	6,627.68	5,519.71	6,818.31	
-	3,381.68	3,701.76	5,150.86	1,932.58	~
55.56	-	-	-	-	
-	-	-	-	-	
-	-	-	-	-	
55.56	3,381.68	3,701.76	5,150.86	1,932.58	
204.96	9,092.02	50,020.88	25,580.59	33,532.31	

Report on Special Investigation of the
City of Riverside

Staff

This special investigation was performed by:

Annette K. Campbell, CPA, Director
Jennifer Campbell, CPA, Manager
Kassi D. Adams, Staff Auditor


Tamera S. Kusian, CPA
Deputy Auditor of State

Appendix

Report on Special Investigation of the
City of Riverside

Copies of the Resolution Approving Tina Thomas' Annual Salary
and an Excerpt from the August 17, 2009 City Council Meeting Minutes

RESOLUTION 081709-2
RESOLUTION APPROVING AN EMPLOYMENT AGREEMENT AND
ESTABLISHING THE ANNUAL SALARY FOR THE CITY
ADMINISTRATOR/CLERK

WHEREAS, the City Administrator/Clerk and City Council have agreed
to the terms of the Employment Agreement for the City Administrator/Clerk; and

WHEREAS, the Employment Agreement establishes the annual salary for
the City Administrator/Clerk, Tina Thomas

NOW, THEREFORE BE IT HEREBY RESOLVED that the Riverside City
Council approves the Employment Agreement with the City Administrator/Clerk
Tina Thomas and establishes the annual salary of \$ 52,500 AND TO PAY TINA ~~FOR~~ ^{FOR 20 hrs comp time on the books since she is salary}
The employee wage increase will be effective July 1, 2009 and retroactive to
that date.

IT WAS MOVED BY Bower, seconded by Yahnke that the foregoing
resolution be adopted.


Roll Call : Waldschmidt, Yahnke, Bower, Kaalberg, Sexton

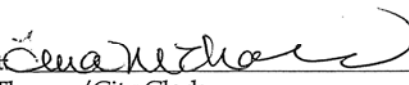
Ayes: Waldschmidt, Yahnke, Bower, Kaalberg, Sexton

Nays: None

Absent: None

Passed by the City Council of Riverside, Iowa and approved this 17th day of August
2009.

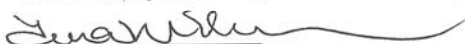

Mayor Pro Tem, Todd Yahnke

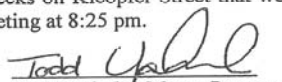
Attest 
Tina Thomas/City Clerk

Report on Special Investigation of the
City of Riverside

Copies of the Resolution Approving Tina Thomas' Annual Salary
and an Excerpt from the August 17, 2009 City Council Meeting Minutes

5-0. Motion by Bower, seconded by Yahnke to move out of closed session and return to the regular council meeting at 8:10 pm. Approved 5-0. Motion by Bower, seconded by Yahnke to approving Resolution # 081709-2 an employment agreement and setting the salary of \$52,500 for the City Administrator/Clerk, Tina Thomas. Roll Call: Ayes: Waldschmidt, Yahnke, Bower, Sexton and Kaalberg. Nays: None. Approved 5-0. The open house was discussed and the council wants to keep the date of September 19th from 9:00 am to 11:00 am for the open house on city buildings. Thomas was asked to send a letter to a resident who is parking on the city's ROW along Hwy 22 and to have the building inspector check two decks on Kleopfer Street that were built without permits. Mayor Pro tem Yahnke adjourned the meeting at 8:25 pm.


Attest: Tina Thomas
City Administrator/Clerk


Todd Yahnke, Mayor Pro tem